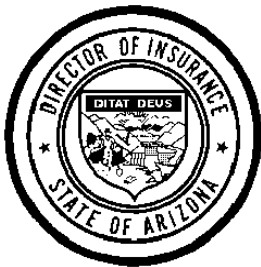


A Consumer Guide to

HOMEOWNER'S INSURANCE



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This Consumer's Guide provides basic information. Details on the exact type and kind of insurance coverage should be obtained from the consumer's agent and insurance company.

The purpose of this guide is to encourage consumers to comparison shop for their homeowner's insurance. See the Homeowner's Premium Comparison Survey for rate information.

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Persons with a disability may request that materials be presented in an alternative format by contacting the ADA Coordinator at (602) 912-8456. Requests should be made as early as possible to allow time to procure materials in an alternative format.

BASIC HOMEOWNER'S INSURANCE COVERAGES

Homeowner's insurance combines more than one type of coverage into one policy. Usually, four types of coverage are contained in the policy: (1) Dwelling and Personal Property; (2) Liability; (3) Medical Payments; and, (4) Additional Living Expenses.

**(1) Dwelling and Personal Property Coverage**  
*Dwelling coverage* helps pay for any structural damage to your home. Other structures such as a detached garage, a storage shed or any other building on your property are usually covered for 10% of the coverage on your house.

*Personal property coverage* pays for your contents including household furniture, clothing and other personal belongings. The amount of insurance is usually 50% of the policy limit on your dwelling. Your policy also provides

more limited coverage for personal property, commonly 10%, if it is stolen or damaged while you are away from home, including when you are on vacation.

**(2) Personal Liability Coverage**  
Homeowner's insurance provides personal liability coverage that applies to non-automobile accidents on and off your property if the injury or damage is caused by you, a family member, or your pet. The liability coverage in your policy pays both for the cost of defending you and paying for any damages a court rules you must pay. Unlike other coverage in a homeowner's policy, the liability coverage does not have a deductible that must be met before the insurer pays. The basic limit is usually \$100,000 for each occurrence, but you may request higher limits, which are normally available for an additional cost.

**(3) Medical Payments Coverage**  
Medical payments coverage pays if someone outside your household is injured at your home regardless of fault and pays for reasonable medical expenses. In limited circumstances, Medical Payments may pay if you are involved in the injury of another person away from your home.

**(4) Additional Living Expenses**  
If you must temporarily move into a motel or apartment due to a loss covered by your policy, the insurance company will pay reasonable and necessary additional living expenses, generally for up to 12 months. The typical policy pays up to 20% of the policy limit on your dwelling for expenses that exceed your normal daily living expenses.

ADDITIONAL COVERAGE

Homeowner's insurance generally provides the following additional coverage:

- **Debris Removal.** The policy usually covers a *fixed* amount toward the cost of having debris that is left as a result of the loss removed from the premises.
- **Trees, Plants and Shrubs.** Trees, plants and shrubs around the house are usually covered for 5% of the insurance on the house, up to \$500 per item against theft, fire, lightning, explosion, vandalism, riot, and even falling aircraft. Windstorm damage to trees, plants and shrubs is normally *not* covered.

Ask your agent about the following additional benefits offered by some insurers for extra premium:

- **Credit Card Coverage.** Many policies pay up to \$500 to cover unauthorized credit card use.
- **Identity Theft.** Some insurers offer coverage for expenses arising from the misuse of your identity.
- **Mold.** Some insurers offer limited coverage of losses related to mold.

COMMON EXCLUSIONS AND LIMITATIONS

Most homeowner's policies do **not** cover:

- Loss to animals, birds, fish or automobiles.
- Damage caused by flood, surface water, overflow of a body of water, or spray from any of these.
- Water damage due to backed-up sewers or drains.
- War, nuclear hazard, neglect, earth movement or power failure damage.
- Property used for any business purposes.
- Mold, fungi, wet rot and dry rot.

Most homeowner's policies **limit** coverage for certain types of personal property such as:

- Cash, securities, jewelry, furs, and stamp and coin collections because they are especially susceptible to loss.
- Fire arms
- Computers
- Antiques or art objects

HOMEOWNER INSURANCE POLICIES

Several types of homeowner's insurance policies, which vary according to coverage and type of dwelling insured, are available from insurers in Arizona.

**The basic policy** covers fire or lightning, windstorm or hail, theft, explosion, smoke, damage from vehicles and aircraft, glass breakage, removal of property endangered by peril, vandalism and malicious mischief, and riot or civil commotion.

**The broad policy** covers all the perils covered by the basic plus: building collapse; freezing or accidental discharge of water, or steam from within plumbing, heating,

or air conditioning systems and domestic appliances; falling objects; weight of ice, snow, or sleet; and rupture or bursting of steam or hot water heating systems.

**The special policy** covers dwellings for "all risks" except certain specified perils, such as earthquake and flood, and coverage for damage to personal property caused by any of the perils covered by a basic or broad policy. For an additional premium, a special endorsement usually can be added to extend the special policy to provide "all risk" coverage on personal property that is normally limited or excluded from the policy.

**The comprehensive policy**, not often sold today, has an even shorter list of exclusions. Not all companies offer this form, but may offer a policy similar to it.

OTHER TYPES OF RELATED INSURANCE

**Renters or tenant policy.** If you are a renter, you do not need protection against damage to the building itself, but do need protection against damage to or theft of your personal property and liability in the event someone is injured on the part of the premises you rent.

**Condominium owner policies** insure personal property and protect against liability in the event someone is injured in the condominium. Check with your condominium association and your agent before buying a policy to make sure you are adequately covered.

**Mobile Homeowner's Policy.** The mobile homeowner's policy is written specifically for mobile homes and includes coverage on the mobile home as well as theft and liability protection. Policies can differ significantly as can the premiums.

**Flood Insurance.** Homeowner's insurance normally excludes flood coverage. However, you may be able to purchase flood insurance through the National Flood Insurance Program (NFIP) if you live in a designated NFIP community and comply with federal guidelines for flood prevention. A few insurers do offer flood insurance if you are not otherwise eligible for NFIP flood insurance. Your agent can tell you if you are eligible.

You can also contact the NFIP at:

National Flood Insurance Program  
P.O. Box 6468  
Rockville, MD 20849-6468  
1-800-638-6620

BUYING THE RIGHT AMOUNT OF COVERAGE

**Typical Coverage**  
The amount of personal property and other coverage automatically provided is a fixed percentage of the

dwelling coverage amount. *For example*, under a Broad Policy form, this is how it would normally work:

| Type of Property  | Insured For              | % of Dwelling |
|---|--------------------------|---------------|
| Dwelling  | \$45,000                 |               |
| Detached Garages, Storage Sheds, etc.                   | \$4,500                  | 10%           |
| Unscheduled Personal Property On Premises (Possessions) | \$22,500                 | 50%           |
| Unscheduled Personal Property Off Premises              | \$4,500                  | 10%           |
| Additional Living Expenses                              | \$9,000                  | 20%           |
| Personal Liability                                      | \$100,000 per occurrence |               |
| Medical Payments  | \$1,000                  |               |

- Choosing Your Policy Limits
- To decide how much coverage you need, consider:
- The value of your home and contents. Prepare a list of your possessions, including values and serial numbers. This will help you decide how much personal property coverage you need.
  - Whether you want full coverage or are willing to bear part of the cost of a loss.
  - Asking that unusual or high-valued articles, including antiques, art objects, and jewelry, be specifically listed in the policy. You may be able to increase coverage for this property by paying an additional premium. To determine if you already have coverage, check the theft provisions of your policy.
  - The value of the assets you wish to protect in determining how much liability coverage you need.

**Buying Enough Coverage**

Before buying homeowner's insurance, consider the difference between *“actual cash value”* and *“replacement cost coverage.”* These terms apply to the coverage on your dwelling *and* your personal property. Most homeowner's policies contain replacement cost on the home and actual cash value coverage on personal property. Some companies do sell replacement cost coverage for personal property.

**Actual cash value** is the value of the property when it is damaged or destroyed. This usually is determined by taking the replacement cost and subtracting depreciation. For example, a chair that initially cost \$500 may have a reasonable “life” of 20 years. If it is destroyed after 10 years, its actual cash value probably will be about \$250.

**Replacement cost** is what it would cost to completely replace your house or any part of it. This is different

from market value and actual cash value. A home that was built five years ago for \$50,000 may have a current market value of \$75,000, but have a replacement cost that is higher or lower than the market value. In order to qualify for full replacement cost, the dwelling normally must be insured at 80% to 90% of the replacement cost.

For example, if the replacement cost of your house is \$50,000, you should have it insured for at least \$40,000 (80%) of its value. Then if part of the home is damaged, you can get that part fully replaced. If you purchase an amount less than 80% of the replacement cost of your home, your insurance company will not be obligated to pay the total cost of loss to your home even if it is a small loss.

*Be sure to consider increasing your insurance if you add to your home or personal property.*

**Inflation Guard.** Many policies include an *inflation guard* provision that automatically increases the amount of dwelling insurance to reduce the possibility of the home being underinsured due to inflation.

CHECK YOUR POLICY

The above descriptions are generalized. It is important that you check your policy to determine the precise terms of your policy. Read through the policy to know your rights and the insurer's obligations. If you do not understand your policy, ask your agent or company to explain it to you.

**Read renewal policies!** Insurers can change the terms of your homeowners policy at renewal.

**Check-up.** *Request an insurance “check-up” from your agent periodically.*

FACTORS INSURERS USE TO EVALUATE AN APPLICATION FOR INSURANCE

The following are some of the factors that insurers consider when determining whether to accept or reject an application and the cost of coverage:

**Age of the home.** Some insurers charge less to insure a new home than an older one because they have found newer homes are less likely to sustain damage in storms and fires.

**Crime and vandalism** in an area will affect the cost of insurance.

**The building’s location** affects the price of insurance because some communities have better fire protection than others. Insurance companies divide the state into rating territories. Each city and locality in Arizona is given a numerical fire protection rating classification based on the amount of fire protection in the area. These rating classes depend on such factors as water pressure, access to fire departments, and the training and skills of

firefighters. Most larger cities in Arizona are in the lowest rated classes. Small towns and rural areas have higher fire protection classes and generally higher prices. Areas without any fire protection receive the highest rating, a 10. An agent who sells homeowner's insurance policies can tell you the community's fire protection class.

**Construction of the home** impacts cost. Whether it is block or frame, for instance.

**Your credit history** is also evaluated by the insurer. For more detail, read the Department of Insurance Guide to Understanding How Insurers Use Credit Information.

**Claims history of the property and the applicant** are also considered in determining price and insurability.

HOW YOU CAN REDUCE THE COST OF YOUR HOMEOWNER’S COVERAGE

Adjusting your coverage or deductibles and shopping for discounts can save you money:

**Increase your deductible.** Many insurers will lower your premium if you choose a higher deductible. Since you are actually “self-insuring” or paying for that portion of the loss yourself, you should evaluate whether the premium cost savings is worth the additional deductible you will have to pay prior to your insurance benefits being applied to a loss.

**Multiple-policy discounts.** Some insurers may reduce your premium if you keep two or more policies with them. If you already have an automobile policy with an insurer that also writes homeowner's insurance, ask if the insurer will discount your homeowner's coverage.

**Security/Safety discounts.** Some companies offer to reduce your premium if you install a fire sprinkler system and a burglar alarm that rings into a central station. These systems can be expensive and not every system may qualify for the discount.

**Nonsmoker discounts.** Some insurers reduce premiums for non-smoking households.

**Long-time policyholders.** If you have had coverage with the same insurer for several years and have not incurred losses, some insurers will reduce your premiums.

SOME TIPS ON LOSS PREVENTION

Taking steps to prevent losses is just as important as buying insurance to cover them.

- Install smoke and heat detectors near sleeping areas.
- Clear accumulated trash, oily rags and combustible materials.
- Check lamps, lamp cords and light switches for faulty wiring.

- Practice home fire drills, keep matches away from children and make sure smokers do not smoke in bed.
- Install good locks, secure windows, consider a security system and take other precautions to deter burglars.

WHEN CAN AN INSURER CANCEL YOUR POLICY?

After a policy has been in effect for 60 days, insurers may cancel your policy in the middle of the term if:

- You stop paying premiums,
- Have been convicted of a crime increasing the hazard that is insured,
- Have breached the contract,
- Have acted fraudulently or committed material misrepresentation in getting the policy,
- Have failed to take reasonable steps to eliminate conditions that may increase losses, or
- If there has been a substantial change in the risk.

If an insurer refuses to continue covering you, it must mail to you a written notice of cancellation and state the reason the policy is being canceled.

WHEN CAN AN INSURER NON-RENEW YOUR POLICY?

With one exception, insurers may non-renew your policy at the end of the policy term for any reason. If the renewal is based on a condition of the premises, the insurer must give you 30 days prior notice to remedy the identified condition and another 30 days, upon payment of premium, to cure the defective condition. Insurers are not permitted to label "condition of premise" losses as "loss/claims history" to circumvent these notice requirements.

If an insurer refuses to continue covering you, it must mail to you, at least 30 days in advance, a written notice of non-renewal and state the reason the policy is being non-renewed.

WHAT IF YOU HAVE TROUBLE FINDING INSURANCE?

Companies may choose the people they wish to insure. They may not refuse to insure based on race, color, creed, national origin, or ancestry.

If you have tried several companies and cannot find homeowners insurance coverage, you may call the Arizona Department of Insurance at (602) 912-8444 (Phoenix) or (1-800) 544-9208 (outside Phoenix).